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SUBJECT: NICARAGUA: ORTEGA AND THE PRIVATE SECTOR, STILL WORLDS
APART

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Summary

1. (SBU) Following Daniel Ortega's November 2006 victory at the polls, the business community's first reaction was the generalized desire to get past the bitterness of the elections. Erwin Kruger, then President of the Federation of Nicaraguan Business Associations (COSEP), thought such reconciliation might be accomplished through COSEP's economic plan, "Pillars of Development." Once in power, however, Ortega treated COSEP, which supported rival Eduardo Montealegre, as a natural political opponent. Within two months, Ortega's government attacked Kruger, revealing a pattern of persecution to be repeated with other political opponents. Ortega later courted COSEP when he thought that treating the group like a Citizen Power Council might win COSEP support for his controversial scheme. COSEP rebuffed this advance and has since been working to position itself as a politically neutral organization, a development that appears to please Ortega. We expect COSEP to remain cautious about assuming a high political profile, but to enter the fray when government actions (or inaction) seriously affect the ability of its members to conduct business.

Candidate Ortega and the Private Sector

2. (SBU) A week before the November 2006 election, Daniel Ortega publicly signed a pledge with the Nicaraguan Chamber of Commerce to uphold free market principles and pursue sound macroeconomic policy, if elected (Ref B). He was the last of four major candidates to do so, the others being Eduardo Montealegre of the National Liberal Alliance (ALN), Jose Rizo of the Liberal Constitutionalist Party, and Edmundo Jarquin of the Sandinista Renewal Movement. The decision must have been difficult for the former Marxist revolutionary. As a prominent member of the Federation of Nicaraguan Business Associations (COSEP), the Chamber backed COSEP's official endorsement of Eduardo Montealegre, Ortega's strongest electoral opponent. The endorsement was a belated attempt to keep the split between the two main liberal parties from handing Ortega a victory. Notwithstanding, Ortega won the 2006 election, under new rules, with just 38% of the vote.

Private Sector Looks to Engage with Ortega

3. (SBU) Ortega's electoral victory left the business community with little more than the President-elect's signature on a piece of political paper. Even before Ortega's inauguration, COSEP President Erwin Kruger tried to get past the bitterness of the election and into a cooperative dialogue with Ortega. Kruger proposed holding an investment conference for the new president and working with the government on an economic plan. Kruger hoped to insert COSEP into

the formulation of economic policy and keep Ortega on track when it came to adhering to market principles and pursuing private sector led growth.

14. (SBU) Under Kruger, COSEP developed an economic plan called "Ejes de Desarrollo," or "Pillars of Development." The plan presents industry specific initiatives for tourism, light manufacturing (apparel), beef, coffee, food processing, aquaculture, peanuts, and sugarcane (including ethanol). The plan stresses the importance of free trade, staying economically engaged with North America and the world, and dealing with domestic crosscutting needs such as improving energy and infrastructure, financing small and medium-sized businesses, providing vocational education and social programs, developing the Atlantic coast, and strengthening the rule of law. Kruger wanted to use the plan to engage President Ortega.

Relationships Sour

15. (SBU) Shortly after Ortega's inauguration in January 2007, Vice President Jaime Morales and key Economic Advisor Bayardo Arce met with COSEP. COSEP presented the Pillars of Development and proposed that the government create working groups composed of ministers and business leaders to discuss each pillar. COSEP was keen to pitch the idea to Ortega, but the effort stalled as Kruger became the object of apparent persecution.

16. (SBU) In February 2007, a month after Ortega's inauguration, the Minister of Energy announced a review of the geothermal concession awarded to a firm in which Kruger maintained a minor interest, raising questions about the legitimacy of the concession and whether the company involved had fulfilled its commitments to invest. The Attorney General soon entered the fray to declare the concession null. The share price of the Toronto traded company fell 50% in a matter of days. The situation was not resolved until May, when the company signed a new concession agreement with the Attorney General, and, as part of a side deal, Kruger was removed from the Board of Directors. Kruger and most COSEP members believe that government action in this instance was the consequence of Kruger and COSEP's political opposition to Ortega during the election. Other political opponents of Ortega, such as former member of the National Assembly Alejandro Bolanos Davis (Ref A), have been subject to similar persecution.

17. (SBU) In early September 2007, Kruger stepped down as COSEP president, passing the torch to former Nicaraguan Chamber of Commerce President Jose Adan Aguerri, who signed Ortega's November 2006 pledge on behalf of the Nicaraguan Chamber of Commerce.

18. (SBU) COSEP members and leadership increasingly view Ortega's treatment of them as politically manipulative and even ominous. Aguerri believes that Ortega never seriously considered cooperating with COSEP. He points out that at first Ortega shunned COSEP in favor of a direct dialogue with members of the Nicaraguan economic elite, such as Carlos Pellas and Ernesto Fernandez Hollmann. Aguerri, on sabbatical from a position in a bank owned by Hollman, believes this overture was designed to weaken COSEP's voice. However, Pellas and Hollman refused to cut their own deals, telling Ortega that they would stand with COSEP.

Capitalism Sandinista Style

19. (SBU) In contrast, businesses owned by Sandinistas seem to maintain excellent relations with the government. AgriCorp, the largest importer of U.S. rice to Nicaragua, is partly owned by President Ortega's Economic Advisor Bayardo Arce. It managed to easily weather a dust up over genetically engineered U.S. rice that accidentally entered the food supply system in the United States. Another Sandinista-owned business is rumored to benefit from the sale of livestock through the government's "Zero Hunger" food assistance program. A number of Sandinistas are active in real estate, capitalizing on land confiscated in the 1980s, when Ortega was first president. Former Interior Minister Jaime Wheelock holds shares in a beachfront development called "Hacienda Iguana," a former Somoza property that Minister Wheelock transferred to a local cooperative only to purchase at a discount price. In a rash of scandals, other Sandinistas have pressed claims on tourist

properties in and around the Pacific beachfront area of Tola in the Department of Rivas, areas politically controlled by Sandinistas.

Ortega Seeks to Reengage

¶10. (SBU) In June, Ortega found himself in need of political support for his Citizen Power Councils, which had run into strong opposition in the National Assembly and been roundly criticized in the press. Much like the abusive Sandinista Defense Committees of the 1980s, Citizen Power Councils are widely believed to be the mechanism through which Ortega will rebuild the Sandinista party, parcel out political spoils to followers, and control non-Sandinista elements in local and central government.

¶11. (SBU) Ortega thought that COSEP might support Citizen Power Councils, if he treated COSEP more like one, affording it better access to his ministers and to government. He met with COSEP and agreed to set up working groups along the lines proposed in COSEP's Pillars of Development. He declared COSEP the "Citizen Power Council that is working best." The uneasy courtship lasted until October 2007, when Ortega delivered a well-received message of unity to a COSEP forum, appealing to the private sector to "redouble [its] efforts to lift Nicaragua out of poverty." Nevertheless, COSEP members have never supported the concept of Citizen Power Councils, and they have never embraced Ortega's declaration that they constituted one.

¶12. (SBU) In January 2008, Ortega invited Aguerri to participate in a meeting with President Hugo Chavez to explore trade and investment opportunities with Venezuela. Aguerri declined after he learned that the meeting was intended for Citizen Power Councils, and that this was the pretext for inviting COSEP. Since Aguerri's refusal, Ortega has cancelled at the last minute a number of meetings with COSEP during February 2008. Relations continue to be uneasy.

No More Politics

¶13. (SBU) During Undersecretary of Commerce Christopher Padilla's February 28 visit to Nicaragua, Aguerri spoke about the need to unite the private sector to defend its interests. COSEP is currently expanding its ranks from 11 to 16 business associations, including the Nicaraguan Council for Micro, Small, and Medium-sized Businesses and some with Sandinista links. He told Undersecretary Padilla that COSEP's focus is on removing obstacles to doing business and not on politics. Although Undersecretary Padilla pushed back, suggesting that the private sector should play a role in politics as an important element of civil society, Aguerri and other private sector leaders made clear their belief that remaining apolitical is the best course. Aguerri said that it was a mistake that COSEP supported Montealegre in 2006; COSEP should have remained outside the political fray. (Indeed, political party leaders tell us that private sector contributions have been exceedingly scarce since Ortega's victory -- purposefully withheld pending Liberal unity and for fear of FSLN retribution.) COSEP is deliberating whether to amend its charter to prohibit the group from endorsing political candidates in future.

¶14. (SBU) President Ortega is pleased by this development. Business and politics do not mix, he declared, telling Undersecretary Padilla that COSEP "is now engaged in a more serious dialogue with government." Ortega believes COSEP's stance allows him to look for common ground on issues of importance to both sides. Meanwhile, COSEP still is interested in using the Pillars of Development to forge channels of communication with the government, but is focusing more attention on doing-business issues as they relate to taxes, customs, wages, and regulatory approvals, a task that Aguerri likens to "trench warfare."

Comment: Still Worlds Apart

¶15. (SBU) Ortega is capable of fostering the public appearance of a cordial and constructive relationship with the private sector even as he targets specific individuals and their businesses for government administered punishment when they cross his political path. As a result, his relationship with the private sector is

barely cordial and marginally constructive. With few exceptions, members of the private sector fear Ortega because they know he will not hesitate to abuse his authority to advance his political agenda. Nonetheless, Ortega's behavior is a far cry from the 1980s, and for that the private sector is thankful. We expect COSEP to remain cautious about assuming a high political profile, but to enter the fray when government actions (or inaction) seriously affect the ability of its members to conduct business.

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